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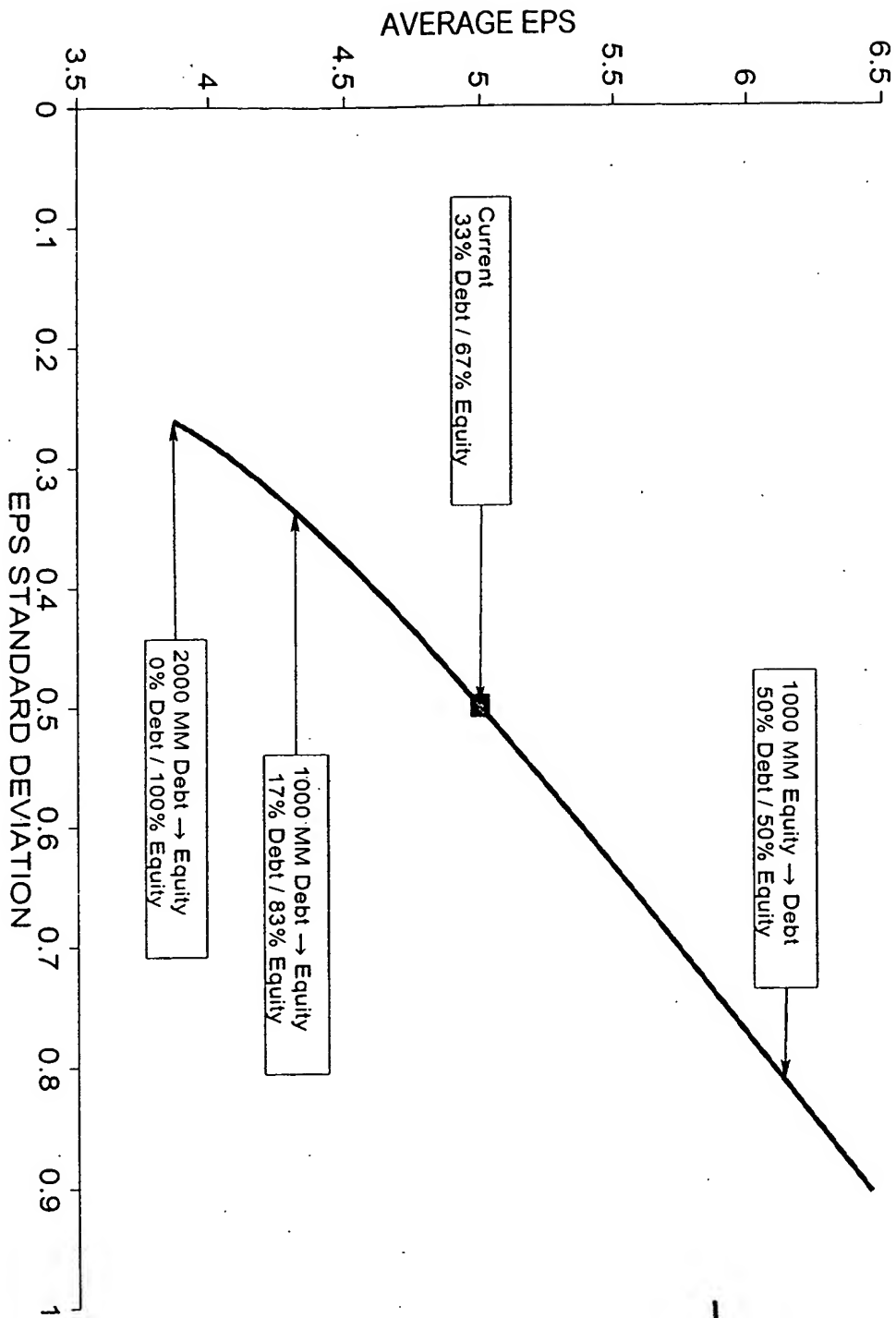


Fig. 1

Fig. 2

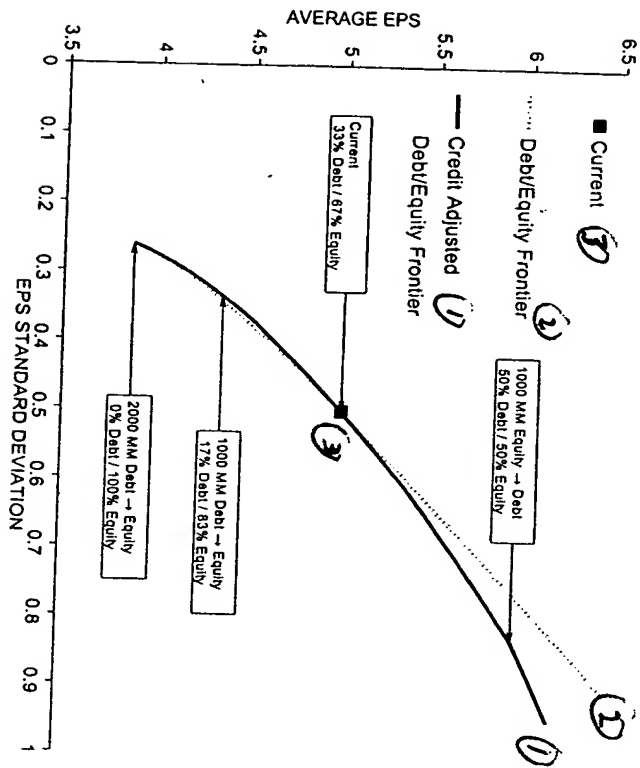


Fig. 3

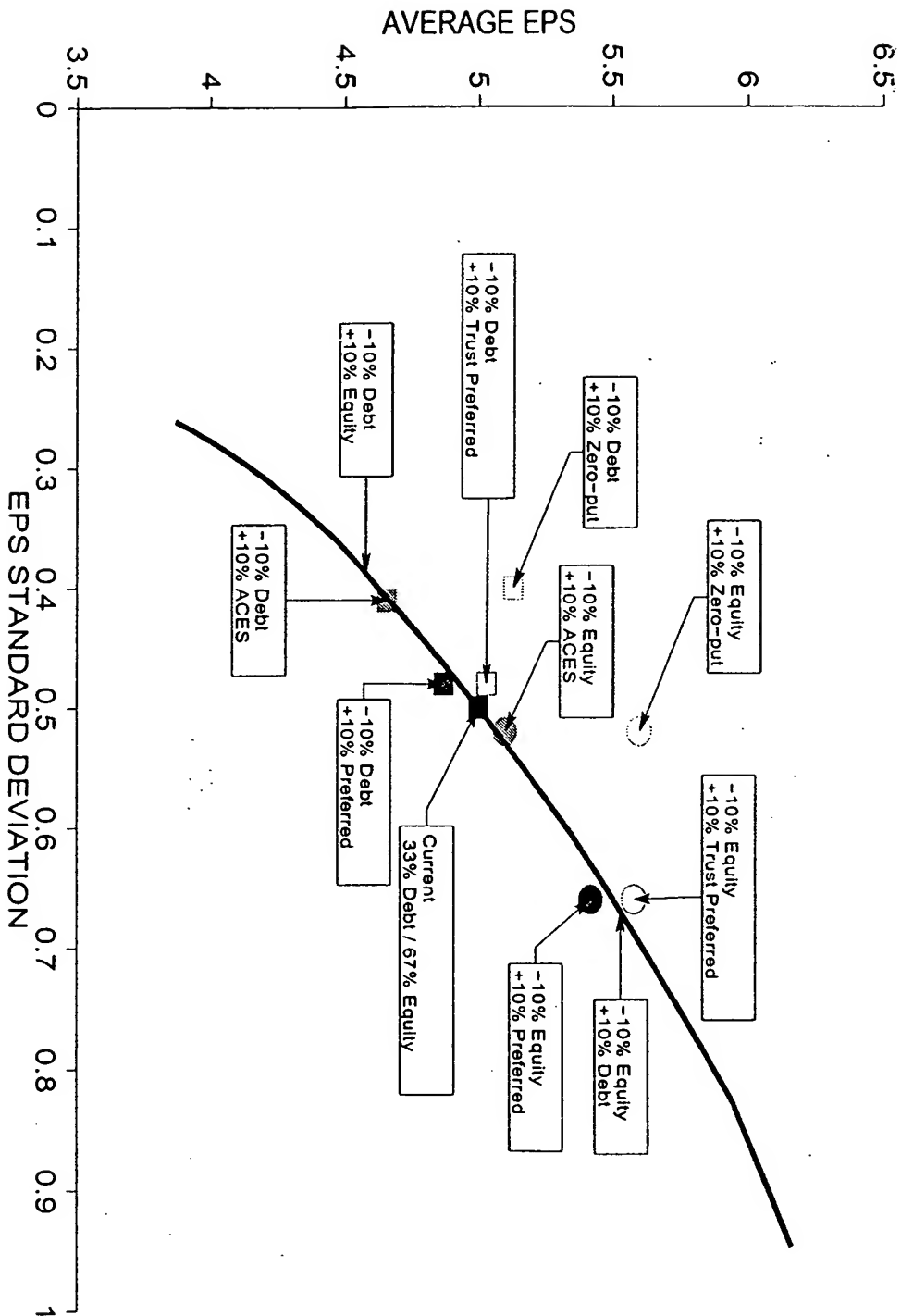
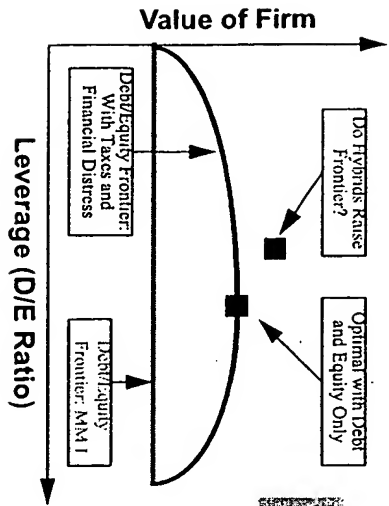


Fig. 4

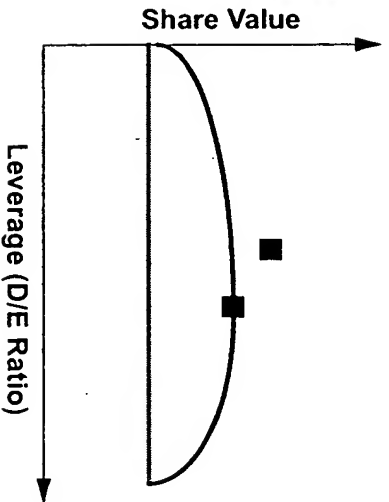
1. Value of the Firm Framework:

- Not from common shareholders' perspective.
- No explicit tradeoff between benefit and risk.
- Hard to quantify.

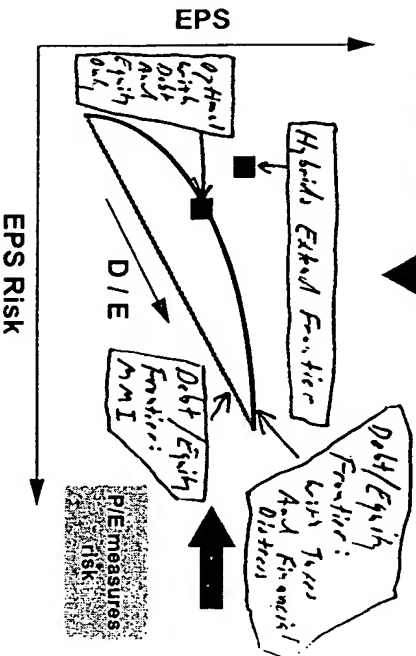


2. Shareholders' Perspective:

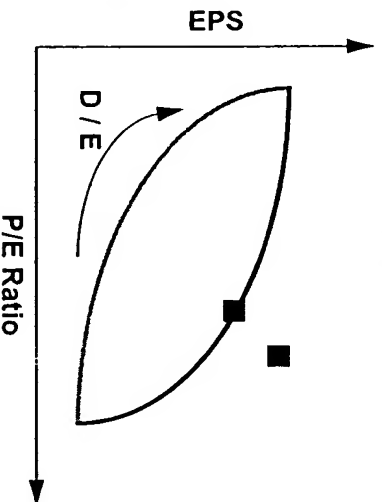
- Value of Firm = Shareholders' value + Other Stakeholders' value.
- Management acts in interest of shareholders to maximize per share value (or share price).
- MM I: Share price independent of leverage.



EQUIVALENT



Price = P/E x EPS



4. EPS Framework:

- Common shareholders' perspective.
- Explicit tradeoff between benefit and risk.
- Easy to quantify.

3. Explicit Trade-off Perspective:

- Share Price =  $EPS \times P/E$  Ratio.
- Increasing leverage increases EPS but decreases P/E.
- MM I: EPS and P/E exactly inversely proportional.

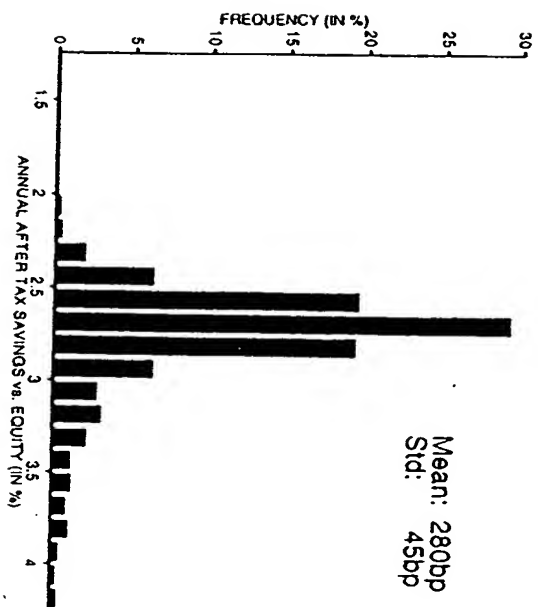


Fig. 5

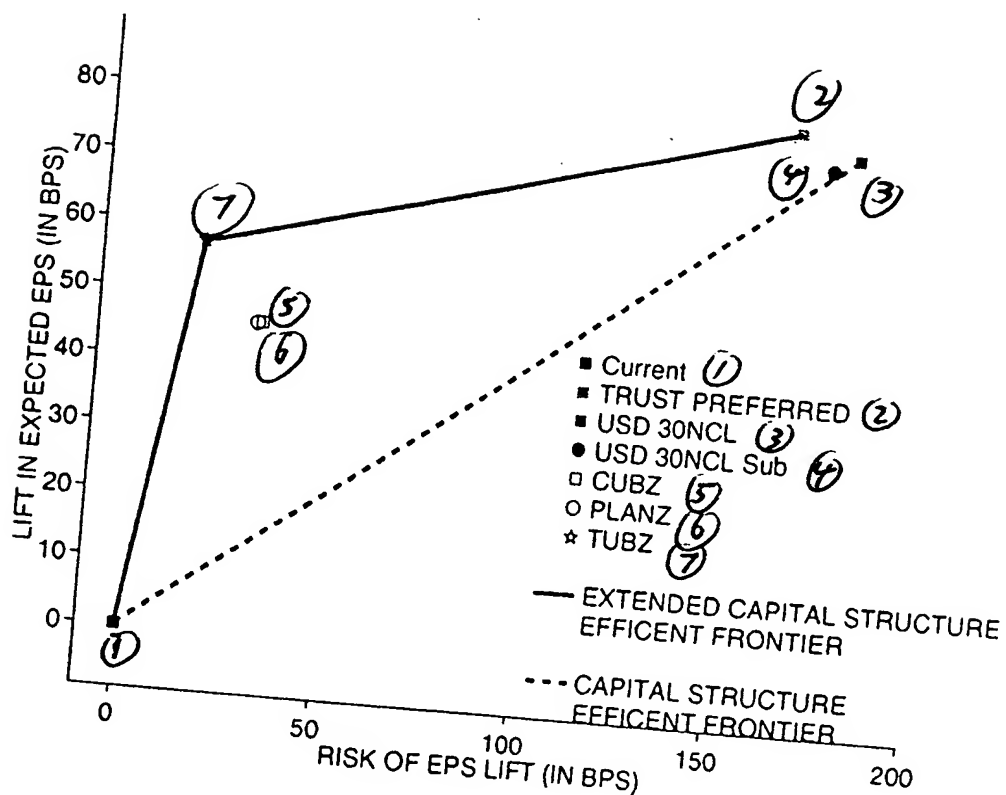


Fig. 6

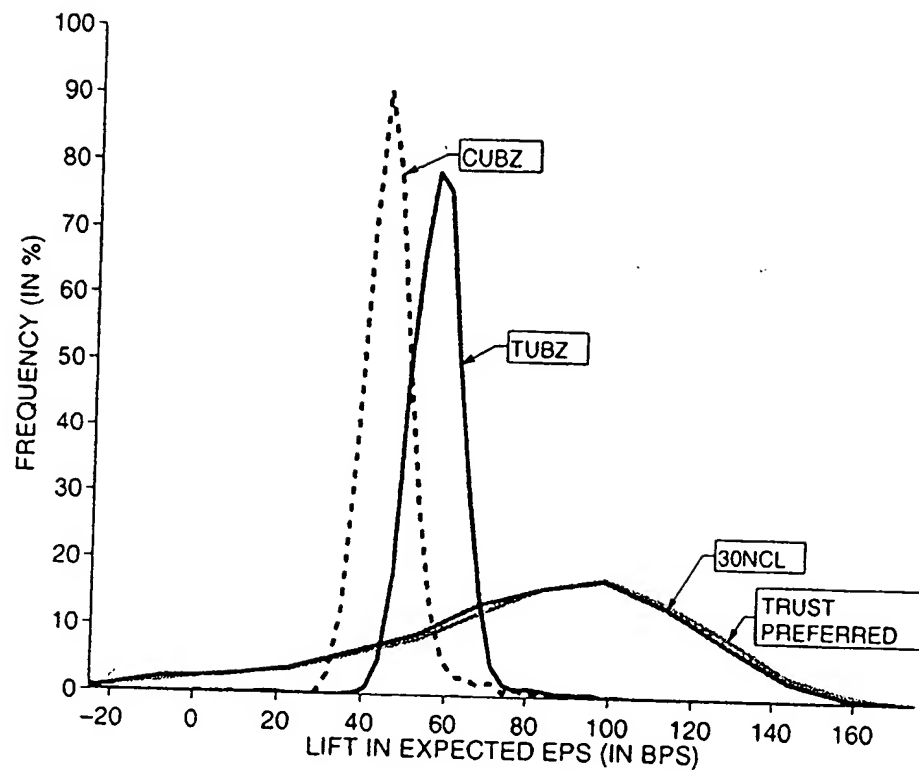


Fig. 7



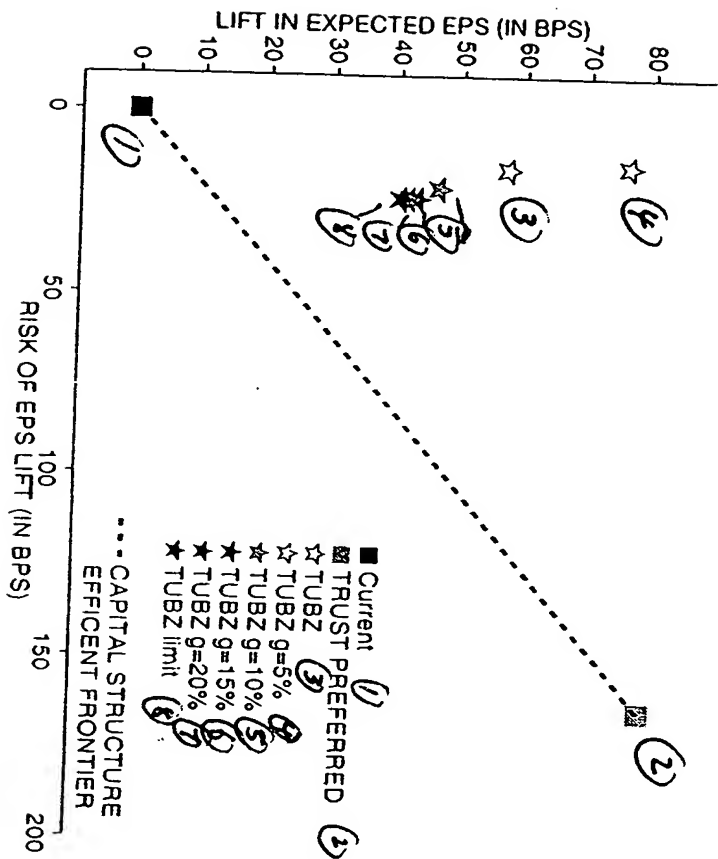


Fig. 8

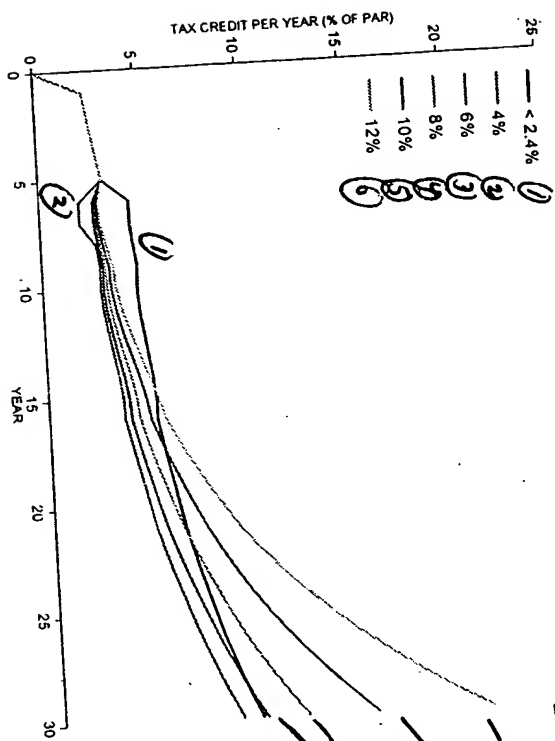


Fig. 9

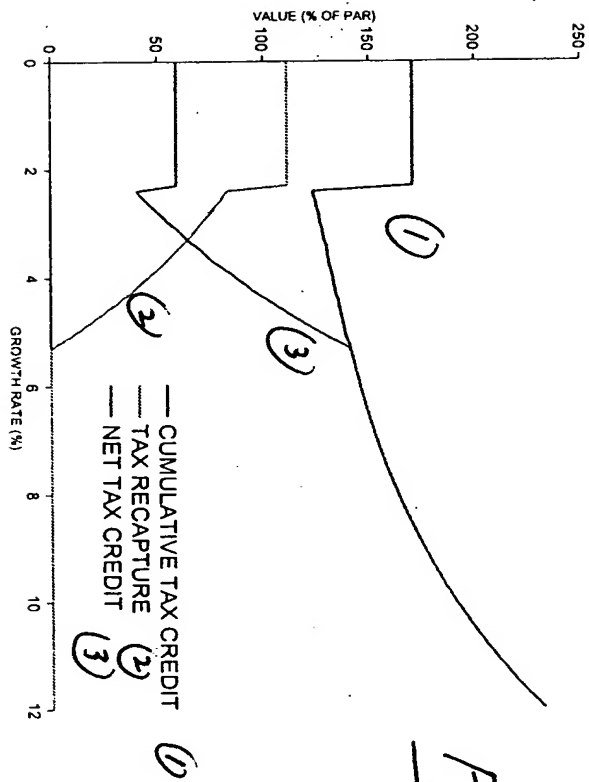


Fig. 10

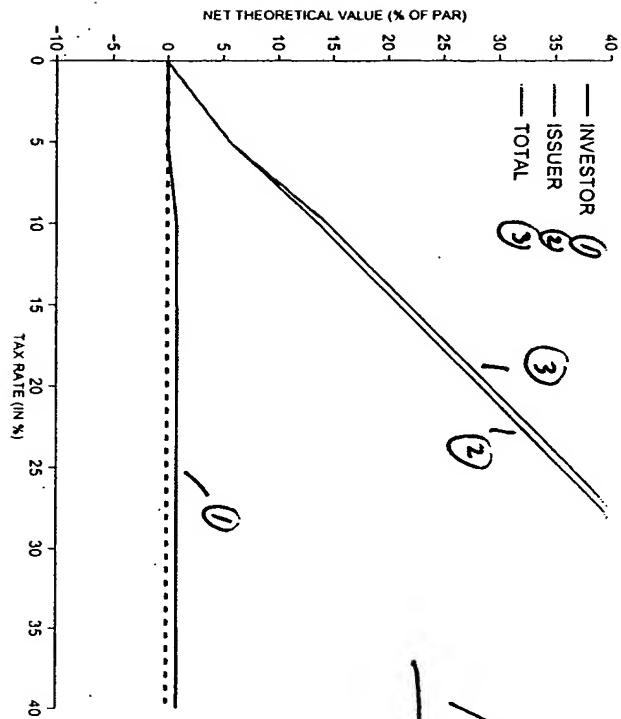


Fig. 11

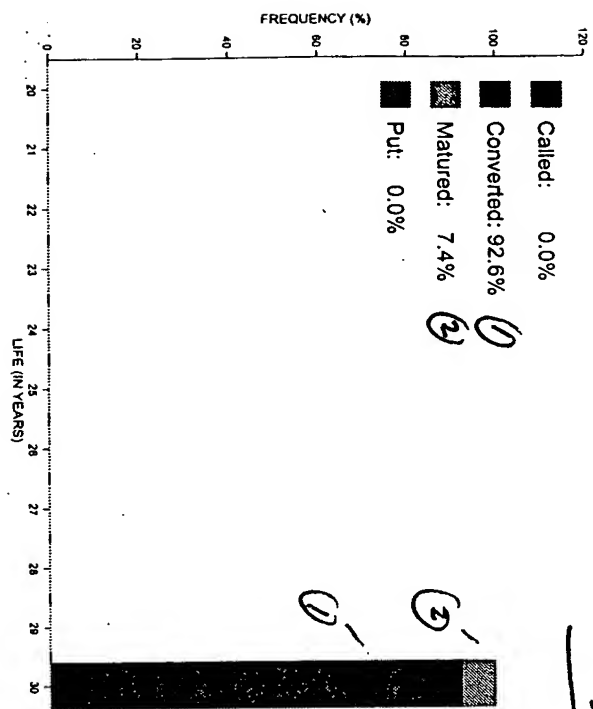
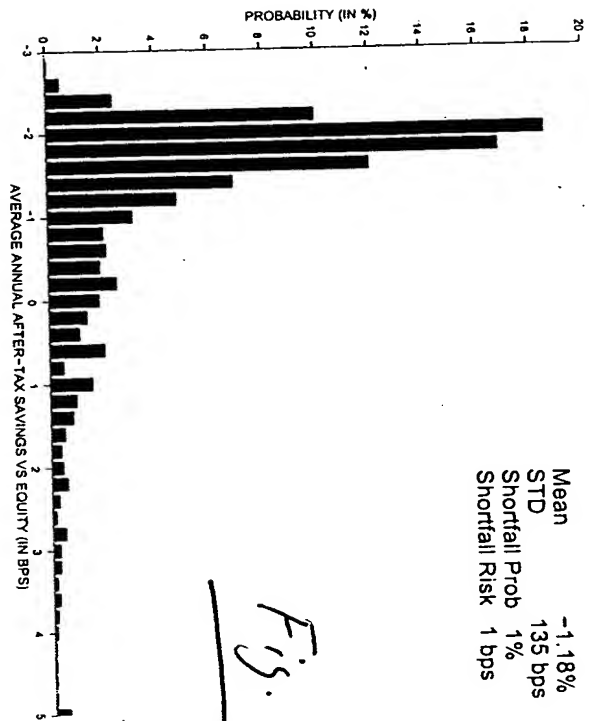


Fig. 12



Mean -1.18%  
 STD 135 bps  
 Shortfall Prob 1%  
 Shortfall Risk 1 bps

Fig. 13

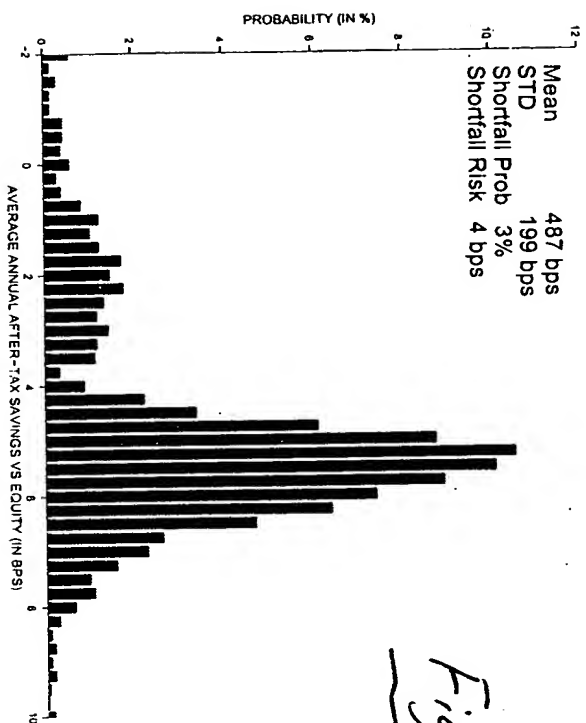
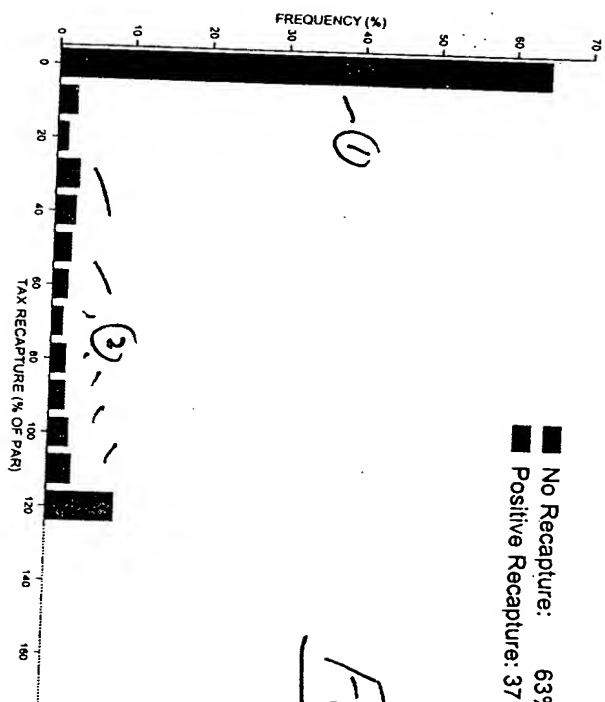


Fig. 14



■ No Recapture: 63% (1)  
 ■ Positive Recapture: 37% (2)

Fig. 15



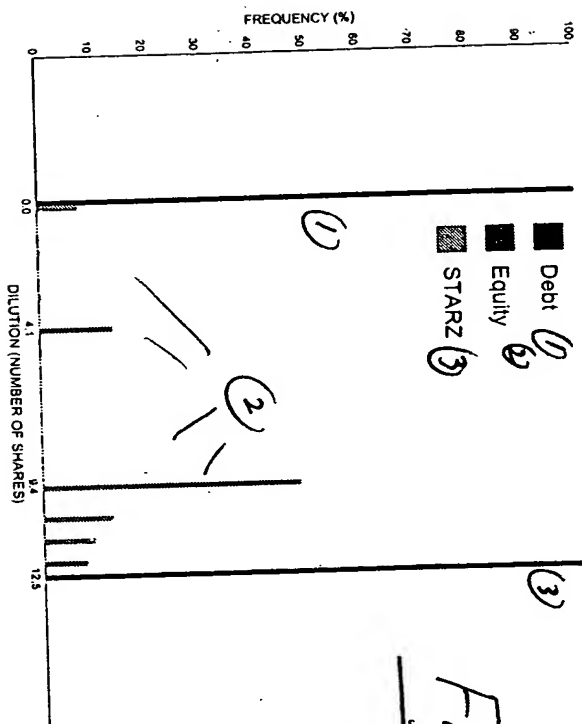
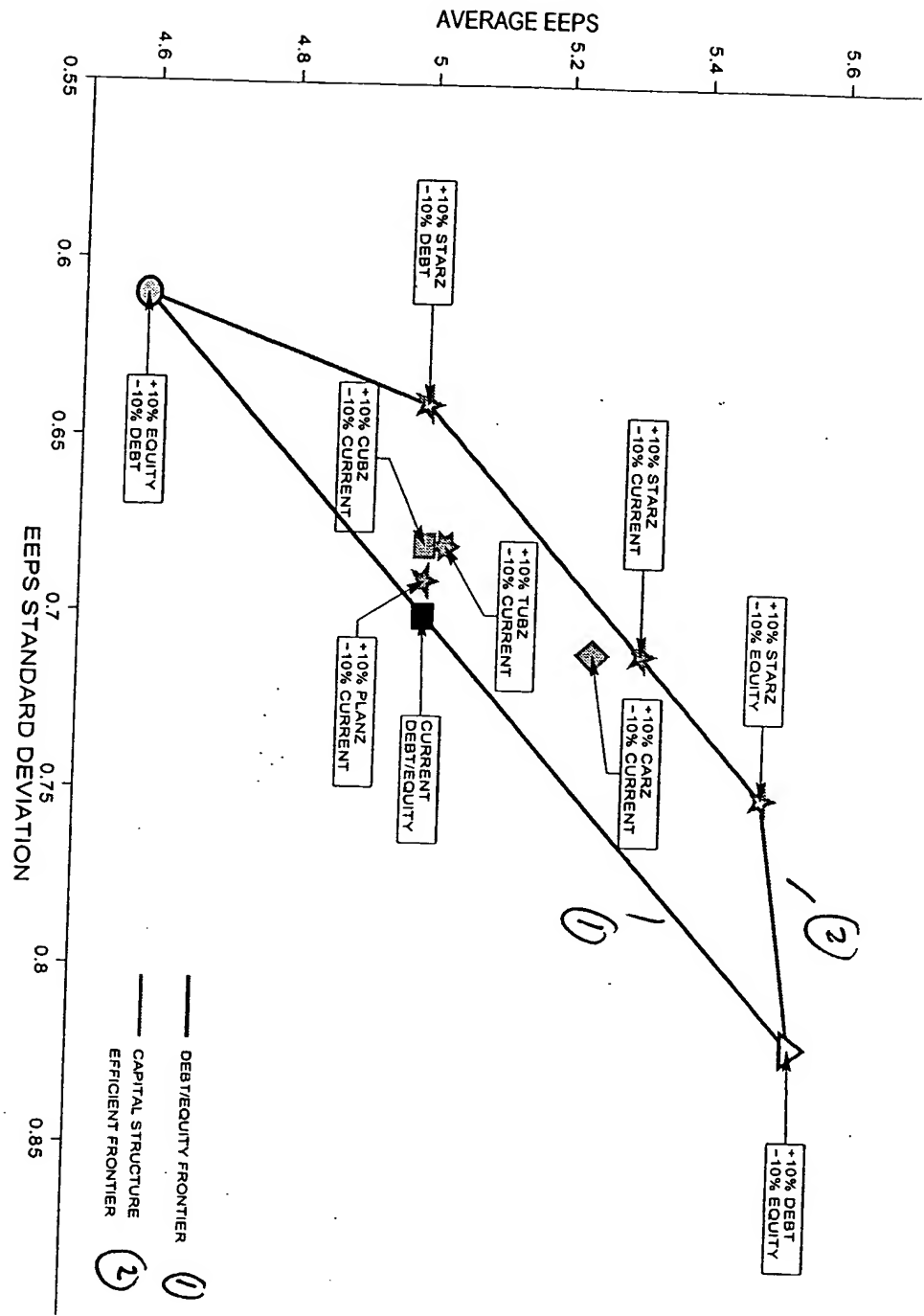


Fig. 17



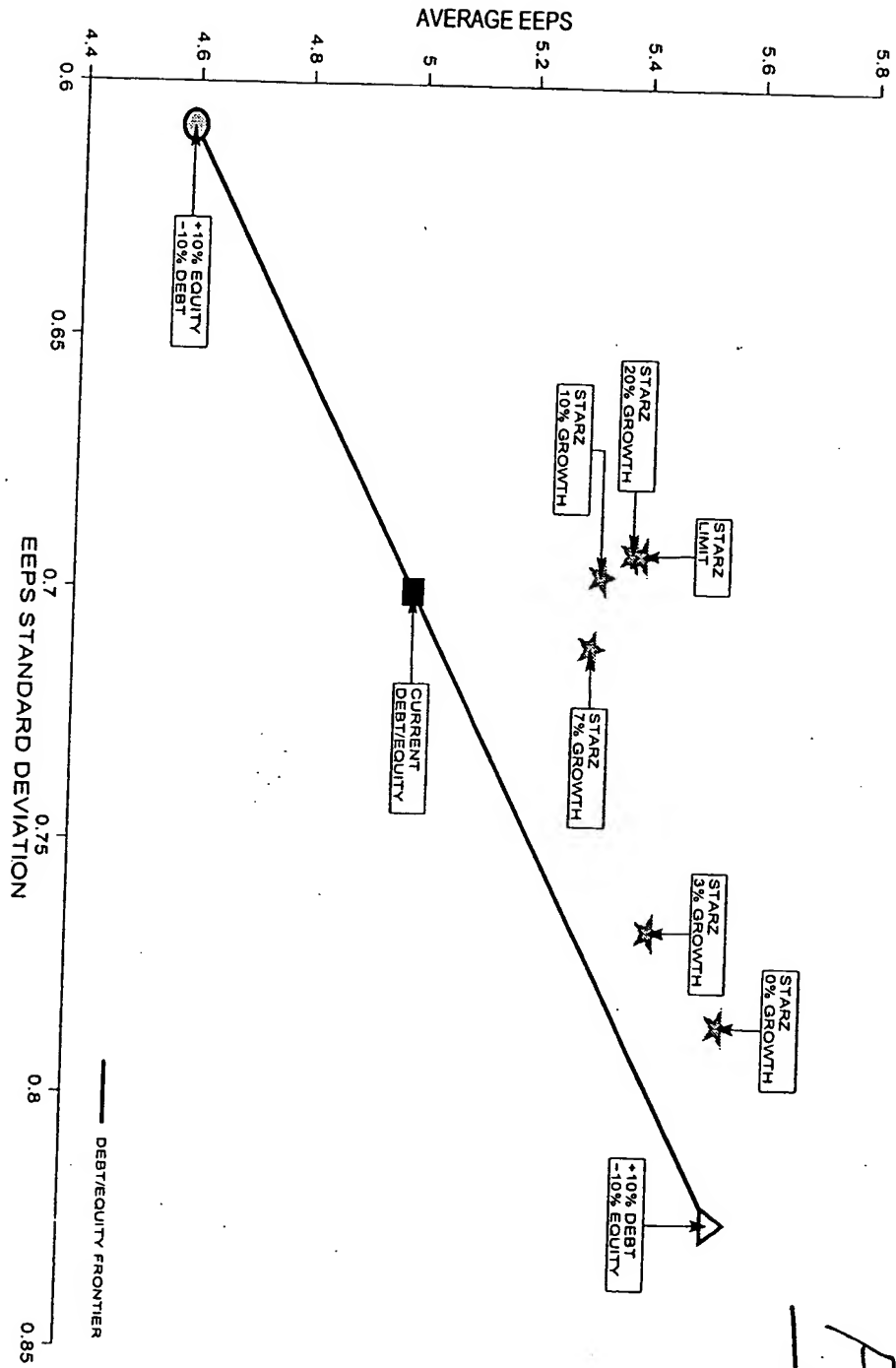


Fig. 18